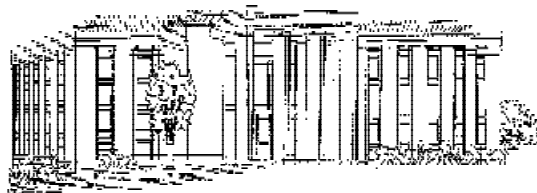


# KTRS NEWSLETTER

TEACHERS' RETIREMENT SYSTEM  
OF THE STATE OF KENTUCKY

ACTIVE MEMBER EDITION  
January/February 2004



## 2004 Legislative Proposals

During its December 2003 meeting, the KTRS Board of Trustees approved proposals for the 2004 General Session. This proposal is summarized in three areas – I. Change in the Funding Formula for the Medical Insurance Fund; II. Cost of Living Adjustments; and III. Other Measures. These three areas are summarized below:

### WHAT'S INSIDE!

2004  
Legislative  
Proposals



New Medicare  
Drug Bill



Mid-Career  
Workshops



Pre-  
Retirement  
Seminars



System Does  
Not Own  
Mutual Funds



### I. Change in Funding Formula for Medical Insurance Fund

The focus of the legislative proposal for the 2004 General Session concerns long-term funding of the KTRS medical insurance program. This program was established in 1964 by the General Assembly on a "pay-as-you-go" basis under which the contributions of active members help fund the medical insurance program for retired members. The basic funding for this benefit has been the same since 1986 - ¾% contributed from members and matched by the state. With the ratio of retirees to active members increasing coupled with double-digit medical inflation, this level of funding alone is no longer sufficient to fund the benefit.

The basic funding has been augmented since 1998-99 with supplemental funding when the level of funding for retirement benefits improved to the point that the actuary recommended that a portion of contributions to the retirement fund be used to alleviate the shortfalls of the medical insurance fund. As a result of the subsequent economic downturn, the actuary has advised the System that those funds will be needed to continue the soundness of the retirement plan. The retirement plan is funded in advance of retirement on an actuarially sound basis as compared to the pay-as-you-go funding for the medical plan.

Since 1998, this supplemental funding has enabled the retirement system to accumulate reserves in the medical insurance fund, however, projections are that additional funding will be needed no later than 2006. Without additional

funding by the 2006 plan year serious changes to the funded level of coverage would be required.

The KTRS medical insurance plan is important to over 29,000 retired members currently with coverage and over 43,000 active members who qualify for the plan upon retirement. The Board of Trustees has reacted to the membership by identifying the medical issue as its top priority for the upcoming legislative session. The Trustees will be seeking a change in the funding formula needed to continue this plan at a meaningful and equitable level.

### II. Cost-of-Living Adjustments

In addition to the permanent 1.5% Cost of Living Adjustment (COLA), KTRS requests funding in the budget for "ad hoc" COLA's to help members' retirement allowances keep pace with inflation. For the coming biennium, KTRS will request ad hoc COLA's of 0.8% for fiscal year 2004-2005, and 0.7% for fiscal year 2005-2006. If approved by the Legislature, these ad hoc COLA's, added to the permanent 1.5% COLA, would provide members with a total COLA of 2.3% for fiscal year 2004-2005, and 2.2% for fiscal year 2005-2006. It is important to note that although KTRS always strives to provide the membership with COLA's that at least equal the rate of inflation, COLA's are dependent upon Legislative approval for inclusion in the state budget and consequently upon the availability of state funds to pay for them.

*continued on page 2 ...*

### **III. Other Measures**

#### **a. Modified Critical Shortage Program**

The budget bill enacted during the 2003 General Session provided for a temporary retire-and-return-to-work program similar to the former critical shortage program. The budget bill's version of the critical shortage program is scheduled to sunset effective June 30, 2005. For the 2004 General Session, KTRS will propose replacing the budget bill program with a return-to-work program that is similar, except that it will no longer be necessary for the local school district to establish that a critical shortage exists. Furthermore, unlike the budget bill's version of the critical shortage program, the replacement program does not contain any sunset date upon which the program will automatically expire.

#### **b. Alternative Break-in-Service Requirements**

Retired members who wish to return to work in a KTRS-covered position are required to have separated from employment for twelve months if returning to work on a full-time basis for the same employer and for three months if returning to work full-time for a different employer or part-time for the same employer. For the 2004 General Session, alternative breaks-in-service will be proposed under which a retired member must have a minimum two-month break in service followed by a waiver of the member's retirement allowance for a period that would equal, when added to the two-month break in service, the number of months currently required for breaks-in-service. For example, a retired member would be able to return to work full-time for the same employer after a break of two months followed by a waiver of the member's retirement allowance for the ten months next succeeding the two-month break. Or, that same member could experience a six-month break in service followed by a waiver of the member's retirement allowance for the next succeeding six months. A retired member returning to work for the same employer on a part-time basis or a different employer on a full-time basis could do so after a break of two months followed by a waiver of the member's retirement allowance for the next succeeding month.

#### **c. Tax-Deferred Installment Payments**

KTRS will seek a necessary statutory amendment to permit members to purchase service credit by installment payments on a tax-deferred basis. Currently, only lump sum purchases of service credit may be made on a tax-deferred basis by using tax-deferred transfers. If the necessary statutory amendment is made, KTRS would then be able to ask the Internal Revenue Service (IRS) for a private letter ruling approving tax-deferred installment payments. Subject to approval by the IRS, members would be able to purchase service credit on an installment basis through payroll deductions that are made before federal and state taxes are applied, a great savings for the member.

#### **d. Out-of-State Teaching Service**

Almost all service credit purchases must be made at full

actuarial cost. Out-of-state teaching service is an exception. The current cost formula can result in widely varying costs for members purchasing this service depending on several variables. The issue of service credit purchases at less than full actuarial cost was recently a specific concern of the IRS when the retirement system was attempting to obtain a private letter ruling authorizing tax-deferred transfers from Kentucky Public Employees Deferred Compensation Authority to KTRS. The IRS did not approve tax-deferred transfers for purchases of service credit at less than full actuarial cost. Accordingly, members may not use tax-deferred funds to purchase out-of-state teaching service. Given the inequity of the current cost formula and with due regard to the concerns of the IRS, it will be proposed to the 2004 General Assembly that the cost of out-of-state teaching service, effective July 1, 2005, be set at full actuarial cost as are most other types of service credit purchases. The July 1, 2005 effective date would provide members with ample time to purchase out-of-state teaching service under the current cost formula if they wish to do so. If this proposal is enacted, members with out-of-state teaching service may wish to contact the Retirement System to obtain cost estimates under the current formula as well as under the full actuarial cost formula as the change would make the cost of out-of-state teaching service more expensive for some and less expensive for others.

#### **e. Miscellaneous Proposals**

There will be several miscellaneous proposals for the 2004 General Session in addition to the major items noted above. For example, it is proposed that purchases of non-current leaves of absence be expanded to permit purchases for leaves of absence taken not only for reasons of personal health but also the health of a child, spouse or parent as described in the Family Medical Leave Act. Another proposal would increase some retired members' Daily Wage Thresholds by applying Cost of Living Adjustments to their last annual compensation whenever it was earned, not just from their retirement date forward. There will also be suggested statutory amendments to reflect changes in and compliance with the Internal Revenue Code as well as several technical amendments.

### **IMPORTANT NOTICE**

This newsletter provides only a summary of some of the more significant proposals for the 2004 General Session and is intended for general informational purposes only. This summary does not contain all of the terms and detail of the actual proposals that will be submitted to the General Assembly. It must be emphasized that these are only proposals and are subject to legislative consideration and enactment. There is no guarantee that these proposals will be enacted as originally submitted or that they will be enacted at all. Therefore, no final retirement planning decisions should be made based purely upon these proposals as originally drafted. Any proposals that may eventually be enacted into law would not become effective until July 1, 2004 at the earliest.

# New Medicare Drug Bill

The President signed the Medicare Drug Bill on December 8th, 2003. With the information known at this time, it is the intent of the KTRS Board of Trustees to continue sponsoring its health plan that includes prescription drug coverage.

This means that our members will continue with the KTRS provided drug plan. The Medicare bill will not change the delivery of that plan so long as adequate funding is provided for the medical benefit. For the upcoming legislative sessions, KTRS will be seeking a change in the funding formula needed to continue the medical benefit at a meaningful and equitable level, which is important to both active and retired members. (See related article, page 1)

## Workshop/Seminar Schedule

### KENTUCKY TEACHERS' RETIREMENT SYSTEM MID-CAREER PLANNING WORKSHOPS

#### REGISTRATION

5:30 P.M. - 5:40 P.M. (Local Time)

#### SEMINAR

5:40 P.M. - 8:30 P.M. (Local Time)

#### February 23, 2004

Ramada Inn  
Oak Room  
1698 Flemingsburg Road  
Morehead, Kentucky

#### March 1, 2004

Center for Rural  
Development  
2292 South US HWY 27  
Somerset, Kentucky

#### March 22, 2004

Best Western  
Brownsboro Inn  
Onyx Room  
4805 Brownsboro Rd.  
Louisville, Kentucky

#### April 12, 2004

The Springs Inn  
Ball Room  
2020 Harrodsburg Road  
Lexington, Kentucky

### KENTUCKY TEACHERS' RETIREMENT SYSTEM PRE-RETIREMENT SEMINARS

#### REGISTRATION

9:00 A.M. - 9:15 A.M.  
(Local Time)

#### SEMINAR

9:15 A.M. - 1:00 P.M.  
(Local Time)

**You are invited to attend if you are minimum one year to five years maximum from retirement.**

February 7, 2004  
Lexington Public Library  
(Library open @ 9am)  
140 East Main Street  
Conference Room A, Lower Level  
Lexington, Kentucky

March 6, 2004  
KY Teachers' Retirement System  
Next door to Main Building-Ground Floor  
477 Versailles Road  
Frankfort, Kentucky

April 24, 2004  
KY Teachers' Retirement System  
Next door to Main Building-Ground Floor  
477 Versailles Road  
Frankfort, Kentucky

### KTRS SEMINAR OR WORKSHOP PRE-REGISTRATION FORM

Pre-registration for all seminars is **NECESSARY** and offered on a first come, first served basis. Individual retirement estimates will **NOT** be available at these workshops/seminars. Return this pre-registration form to KTRS or pre-register on-line at: [www.ktrs.ky.gov](http://www.ktrs.ky.gov)

This Pre-Registration is for:

☐

Mid-Career  
Workshop

or

☐

Pre-Retirement  
Seminar

Name \_\_\_\_\_ Social Security Number \_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_

Address \_\_\_\_\_

City/State \_\_\_\_\_ ZIP Code \_\_\_\_\_

Name of Employer \_\_\_\_\_

Home Phone: (\_\_\_\_\_) \_\_\_\_\_ Work Phone: (\_\_\_\_\_) \_\_\_\_\_

Date of Workshop attending: \_\_\_\_\_ City of Workshop attending: \_\_\_\_\_

**\*\* Guests are welcome if seating is available. Priority is given to KTRS Members\*\***

Please return completed registration form to: KTRS • 479 Versailles Road • Frankfort, KY 40601-3800

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## System Does Not Own Mutual Funds

In recent weeks, members have contacted the Retirement System to inquire about the System's vulnerability from improperly managed mutual funds. The System does not own any mutual funds and has not been affected by improper mutual fund transactions. The System's portfolios are managed as separate funds that are not combined or commingled with the assets of other investors. The System retains control over all its assets.

The alleged, illegal conduct of mutual fund managers focuses on transactions of mutual fund units, not the stocks purchased by mutual funds. Since the System does not own mutual funds, it does not buy or sell mutual fund units. The alleged improper conduct included transacting mutual fund shares after stock markets had closed. In other instances, large movements of cash were permitted to enter and leave mutual funds when unit values were slightly different than the aggregate underlying values of stocks owned by the funds. The net effect of the mutual fund investigations probably will be the imposition of tighter controls on the mutual fund industry and a reduction in mutual fund management fees.

Some members, who regularly invest in mutual funds, have noticed the relatively weak investment performance of broad market funds when they are compared to the Retirement System's stock portfolio. Without knowing the details of specific funds, the reasons for weaker mutual fund performance are subject to conjecture and certainly impossible to quantify. However, if the mutual fund trading improprieties are eliminated and management fees are limited, mutual fund investors should realize more competitive returns.

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